

Senate Study Bill 3117

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL BY
BY CHAIRPERSON CONNOLLY)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the regulation of the practice of certified
2 public accounting.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
4 TLSB 5152SC 82
5 jr/rj/8

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1 1 Section 1. Section 542.3, subsection 1, Code 2007, is
1 2 amended by adding the following new paragraph:
1 3 NEW PARAGRAPH. d. Any engagement to be performed in
1 4 accordance with the standards of the public company accounting
1 5 oversight board.
1 6 Sec. 2. Section 542.3, Code 2007, is amended by adding the
1 7 following new subsections:
1 8 NEW SUBSECTION. 9A. "Home office" means the client's
1 9 office, as specified by the client, to which an audit or
1 10 attest service is directed.
1 11 NEW SUBSECTION. 20A. "Principal place of business" means
1 12 the office location designated by the certificate holder or
1 13 person who has practice privileges pursuant to section 542.19.
1 14 Sec. 3. Section 542.3, subsections 3, 4, 5, 10, and 13,
1 15 Code 2007, are amended to read as follows:
1 16 3. "Certificate" means a certificate as a certified public
1 17 accountant issued under section 542.6 ~~or 542.19~~, or a
1 18 certificate issued under corresponding prior law. As used in
1 19 section 542.13, "certificate" also means a certificate issued
1 20 by another state to a person with practice privileges pursuant
1 21 to section 542.19.
1 22 4. "Certified public accountant" means a person licensed
1 23 by the board who holds a certificate issued under this chapter
1 24 or corresponding prior law or a person who holds a certificate
1 25 or is licensed by another state who holds a certificate issued
1 26 by that state and who has practice privileges pursuant to
1 27 section 542.19.
1 28 5. "Certified public accounting firm" means a sole
1 29 proprietorship, a corporation, a partnership, a limited
1 30 liability company, or any other form of organization issued a
1 31 permit to practice as a firm of certified public accountants
1 32 under section 542.7. As used in section 542.13, "certified
1 33 public accounting firm" also means a firm of certified public
1 34 accountants with practice privileges pursuant to section
1 35 542.19.
2 1 10. "License" means a certificate issued under section
2 2 542.6 or by another state if the holder has practice
2 3 privileges pursuant to section 542.19, a permit issued under
2 4 section 542.7, or a license issued under section 542.8; or a
2 5 certificate, permit, or license issued under corresponding
2 6 prior law.
2 7 13. "Licensee" means the holder of a license or a person
2 8 with practice privileges pursuant to section 542.19.
2 9 Sec. 4. Section 542.4, subsections 1 and 2, Code 2007, are
2 10 amended to read as follows:
2 11 1. An Iowa accountancy examining board is created within
2 12 the professional licensing and regulation bureau of the
2 13 banking division of the department of commerce to administer
2 14 and enforce this chapter. The board shall consist of eight
2 15 members, appointed by the governor and subject to senate
2 16 confirmation, all of whom shall be residents of this state.
2 17 Five of the eight members shall be holders of certificates
2 18 issued under section 542.6, one member shall be the holder of

2 19 a license issued under section 542.8, and two shall not be
2 20 certified public accountants or licensed public accountants
2 21 and shall represent the general public. At least three of the
2 22 holders of certificates issued under section 542.6 shall also
2 23 be qualified to supervise attest services as provided in
2 24 section 542.7. ~~A certified or licensed member of the board
2 25 shall be actively engaged in practice as a certified public
2 26 accountant or as a licensed public accountant and shall have
2 27 been so engaged for five years preceding appointment, the last
2 28 two of which shall have been in this state.~~ Professional
2 29 associations or societies composed of certified public
2 30 accountants or licensed public accountants may recommend the
2 31 names of potential board members to the governor. However,
2 32 the governor is not bound by the recommendations. A board
2 33 member is not required to be a member of any professional
2 34 association or society composed of certified public
2 35 accountants or licensed public accountants. The term of each
3 1 member of the board shall be three years, as designated by the
3 2 governor, and appointments to the board are subject to the
3 3 requirements of sections 69.16, 69.16A, and 69.19. Members of
3 4 the board appointed and serving pursuant to chapter 542C, Code
3 5 2001, on July 1, 2002, shall serve out the terms for which
3 6 they were appointed. Vacancies occurring during a term shall
3 7 be filled by appointment by the governor for the unexpired
3 8 term. Upon the expiration of the member's term of office, a
3 9 member shall continue to serve until a successor shall have
3 10 been appointed and taken office. The public members of the
3 11 board shall be allowed to participate in administrative,
3 12 clerical, or ministerial functions incident to giving the
3 13 examinations, but shall not determine the content or determine
3 14 the correctness of the answers. The licensed public
3 15 accountant member shall not determine the content of the
3 16 certified public accountant examination or determine the
3 17 correctness of the answers. Any member of the board whose
3 18 certificate under section 542.6 or license under section 542.8
3 19 is revoked or suspended shall automatically cease to be a
3 20 member of the board, and the governor may, after a hearing,
3 21 remove any member of the board for neglect of duty or other
3 22 just cause. A person who has served three successive complete
3 23 terms shall not be eligible for reappointment, but appointment
3 24 to fill an unexpired term shall not be considered a complete
3 25 term for this purpose.

3 26 2. The board shall elect annually from among its members a
3 27 chairperson and such other officers as the board may determine
3 28 to be appropriate. The board shall meet at such times and
3 29 places as may be fixed by the board. A majority of the board
3 30 members in office shall constitute a quorum at any meeting.
3 31 The board shall maintain a registry of the names and addresses
3 32 of all ~~licensees and permittees under this chapter~~ holders of
3 33 ~~a certificate, permit, or license issued pursuant to this~~
3 34 ~~chapter or under corresponding prior law.~~

3 35 Sec. 5. Section 542.7, subsection 1, Code 2007, is amended
4 1 by striking the subsection and inserting in lieu thereof the
4 2 following:

4 3 1. The board shall issue or renew a permit to practice as
4 4 a certified public accounting firm to an applicant that
4 5 demonstrates qualifications in accordance with this section.

4 6 a. The following firms must hold a permit to practice
4 7 issued pursuant to this section:

4 8 (1) A firm with an office in this state performing attest
4 9 services.

4 10 (2) A firm with an office in this state that uses the
4 11 title "CPA" or "CPA firm".

4 12 (3) A firm that does not have an office in this state but
4 13 performs the attest services described in section 542.3,
4 14 subsection 1, paragraph "a" or "c" for a client having its
4 15 home office in this state.

4 16 b. A firm which does not have an office in this state may
4 17 perform services described in section 542.3, subsection 1,
4 18 paragraph "b", or section 542.3, subsection 8, for a client
4 19 having its home office in this state and may use the title
4 20 "CPA" or "CPA firm" without a permit issued under this section
4 21 only if the firm meets all of the following requirements:

4 22 (1) The firm has the qualifications described in
4 23 subsections 3 and 8.

4 24 (2) The firm performs those services through an individual
4 25 with practice privileges pursuant to section 542.19.

4 26 c. A firm not subject to the requirements of paragraph
4 27 "a", subparagraph (3), or paragraph "b", may perform other
4 28 professional services while using the title "CPA" or "CPA
4 29 firm" in this state without a permit issued pursuant to this

4 30 section only if the firm meets all of the following
4 31 requirements:

4 32 (1) The firm performs those services through an individual
4 33 with practice privileges under section 542.19.

4 34 (2) The firm lawfully performs those services in this
4 35 state where such an individual with practice privileges has
5 1 the individual's principal place of business.

5 2 Sec. 6. Section 542.7, subsection 3, Code 2007, is amended
5 3 to read as follows:

5 4 3. a. An applicant for initial issuance or renewal of a
5 5 permit to practice as a firm shall show that notwithstanding
5 6 any other provision of law, a simple majority of the ownership
5 7 of the firm, in terms of financial interests and voting rights
5 8 of all partners, officers, shareholders, members, and
5 9 managers, belongs to holders of a certificate issued by a
5 10 state, and that such partners, officers, shareholders,
5 11 members, and managers, who perform professional services in
5 12 this state or for clients in this state, hold a certificate
5 13 issued under section 542.6 or by another state with practice
5 14 privileges pursuant to section 542.19.

5 15 b. A certified public accounting firm may include a
5 16 nonlicensee owner, provided all of the following occur:

5 17 (1) Such firm designates a licensee who is responsible for
5 18 the proper registration of the firm, and identifies that
5 19 individual to the board.

5 20 (2) All nonlicensee owners are active participants in the
5 21 firm or an affiliated entity.

~~5 22 (3) All nonlicensee owners participate in a program of
5 23 learning designed to maintain professional competency in
5 24 compliance with rules adopted by the board which shall include
5 25 requiring compliance with requirements imposed by a regulatory
5 26 authority charged with regulation of a nonlicensee owner's
5 27 professional or occupational license which is relevant to the
5 28 firm's services.~~

~~5 29 (4) All nonlicensee owners comply with all applicable
5 30 rules of professional conduct adopted by the board, and their
5 31 own regulatory authority.~~

5 32 ~~(5)~~ (3) Such firm complies with other requirements as
5 33 established by the board by rule.

5 34 c. A licensee who is responsible for supervising attest or
5 35 compilation services and signs or authorizes someone to sign
6 1 the accountant's report on the financial statements on behalf
6 2 of the firm shall meet the ~~experience or~~ competency
6 3 requirements set out in nationally recognized professional
6 4 standards for such services.

6 5 d. A licensee who signs or authorizes someone to sign the
6 6 accountant's report on the financial statements on behalf of
6 7 the firm shall meet the ~~experience or~~ competency requirements
6 8 established in paragraph "c".

6 9 Sec. 7. Section 542.7, subsection 4, Code 2007, is amended
6 10 to read as follows:

6 11 4. An applicant for initial issuance or renewal of a
6 12 permit to practice as a certified public accounting firm is
6 13 required to register each office of the firm within this state
6 14 with the board and to show that all attest and compilation
6 15 services rendered in this state are under the charge of a
6 16 person holding a valid certificate issued under section 542.6
6 17 or by another state with practice privileges pursuant to
6 18 section 542.19.

6 19 Sec. 8. Section 542.9, Code 2007, is amended to read as
6 20 follows:

6 21 542.9 APPOINTMENT OF SECRETARY OF STATE AS AGENT.

6 22 Application for a certificate under section 542.6, a
6 23 license under section 542.8, ~~or a permit to practice under~~
6 24 ~~section 542.7, or a certificate under section 542.19~~ by a
6 25 person or a firm not a resident of this state constitutes
6 26 appointment of the secretary of state as the applicant's agent
6 27 upon whom process may be served in any action or proceeding
6 28 against the applicant arising out of a transaction or
6 29 operation connected with or incidental to services performed
6 30 by the applicant while a licensee within this state.

6 31 Sec. 9. Section 542.10, subsection 1, unnumbered paragraph
6 32 1, Code 2007, is amended to read as follows:

6 33 After notice and hearing pursuant to section 542.11, the
6 34 board may revoke, suspend for a period of time not to exceed
6 35 two years, or refuse to renew a license or practice
7 1 privileges; reprimand, censure, or limit the scope of practice
7 2 of any licensee; impose an administrative penalty not to
7 3 exceed one thousand dollars per violation; or place any
7 4 licensee on probation; all with or without terms, conditions,
7 5 and in combinations of remedies, for any one or more of the

7 6 following reasons:

7 7 Sec. 10. Section 542.12, subsection 1, Code 2007, is
7 8 amended to read as follows:

7 9 1. In any case in which the board has suspended, revoked,
7 10 or restricted a license or practice privileges, refused to
7 11 renew a license, or accepted the voluntary surrender of a
7 12 license to conclude a pending disciplinary investigation or
7 13 action, the board may, upon written application, modify or
7 14 terminate the suspension, reissue the license, or modify or
7 15 remove the restriction, with or without terms and conditions.

7 16 Sec. 11. Section 542.13, subsections 7, 9, and 12, Code
7 17 2007, are amended to read as follows:

7 18 7. A person or firm not holding a certificate, permit, or
7 19 license issued under section 542.6, 542.7, 542.8, or by
7 20 another state with practice privileges pursuant to section
7 21 542.19 shall not assume or use the title "certified
7 22 accountant", "chartered accountant", "enrolled accountant",
7 23 "licensed accountant", "registered accountant", "accredited
7 24 accountant", or any other title or designation likely to be
7 25 confused with the title "certified public accountant" or
7 26 "licensed public accountant", or use any of the abbreviations
7 27 "CA", "LA", "RA", "AA", or similar abbreviation likely to be
7 28 confused with the abbreviation "CPA" or "LPA". The title
7 29 "enrolled agent" or "EA" may be used by individuals so
7 30 designated by the internal revenue service. Nothing in this
7 31 section shall restrict truthful advertising of a bona fide
7 32 credential or title which in context is not deceptive or
7 33 misleading to the public.

7 34 9. A person or firm not holding a certificate, permit, or
7 35 license issued under section 542.6, 542.7, 542.8, or by

~~8 1 another state with practice privileges pursuant to section~~

~~8 2 542.19 shall not assume or use any title or designation that
8 3 includes the word "accountant", "auditor", or "accounting" in
8 4 connection with any other language that implies that such
8 5 person or firm holds such a certificate, permit, or license or
8 6 has special competence as an accountant or auditor. However,
8 7 this subsection does not prohibit an officer, partner, member,
8 8 manager, or employee of a firm or organization from affixing
8 9 that person's own signature to a statement in reference to the
8 10 financial affairs of such firm or organization with wording
8 11 which designates the position, title, or office that the
8 12 person holds, or prohibit any act of a public official or
8 13 employee in the performance of such person's duties. ~~This~~~~

~~8 14 subsection does not otherwise prohibit the use of the title or
8 15 designation "accountant" by persons other than those holding a
8 16 certificate or license under this chapter.~~

8 17 12. A holder of a certificate issued under section 542.6

8 18 or by another state with practice privileges pursuant to

~~8 19 section 542.19 shall not perform attest services in a firm~~

8 20 that does not hold a permit issued under section 542.7.

8 21 Sec. 12. Section 542.19, Code 2007, is amended to read as
8 22 follows:

8 23 542.19 SUBSTANTIAL EQUIVALENCY.

8 24 1. An individual whose principal place of business is not
8 25 in this state shall be ~~granted a certificate to practice as a~~
~~8 26 certified public accountant in this state if the board~~
~~8 27 determines that presumed to have qualifications substantially~~
8 28 equivalent to this state's qualification requirements and
8 29 shall have all the privileges of certificate holders of this
8 30 state without the need to obtain a certificate pursuant to
8 31 section 542.5 if the individual holds in good standing a valid
8 32 certificate or license to practice as a certified public
8 33 accountant in the state in which the individual's principal
8 34 place of business is located, and that the individual
8 35 satisfies one of the following conditions:

9 1 a. The other state's licensing or certification standards
9 2 are substantially equivalent to those required by this
9 3 chapter.

9 4 b. The ~~applicant's individual~~ individual's qualifications
9 5 are substantially equivalent to those required by section
9 6 542.5.

9 7 c. The ~~applicant~~ individual satisfies all of the
9 8 following:

9 9 (1) The ~~applicant~~ individual passed the examination
9 10 required for issuance of the ~~applicant's individual's~~
9 11 certificate or license with grades that would have been
9 12 passing grades at the time in this state~~7.~~

9 13 (2) The ~~applicant~~ individual has at least four years of
9 14 experience within the ten years immediately preceding the
9 15 application which occurred after passing the examination upon
9 16 which the ~~applicant's individual's~~ certificate or license was

9 17 based and which in the board's opinion is substantially
9 18 equivalent to that required by section 542.5, subsection 12+

~~9 19 and,~~
~~9 20 (3) If the applicant's certificate or license was issued~~
~~9 21 more than four years prior to the filing of the application in~~
~~9 22 this state, the applicant has fulfilled the continuing~~
~~9 23 professional education requirements described in section~~
~~9 24 542.6, subsection 3.~~

9 25 2. An individual who offers or renders professional
9 26 services, whether in person, by mail, telephone, or electronic
9 27 means, under this section shall be granted practice privileges
9 28 in this state, subject to the provisions of subsection 6, and
9 29 no notice or other submission shall be required of such
9 30 individual.

9 31 3. An individual exercising practice privileges pursuant
9 32 to this section shall only exercise those privileges through a
9 33 firm holding a permit issued under section 542.7 when
9 34 performing the following services for a client with its home
9 35 office in this state:

10 1 a. A financial statement audit or other engagement
10 2 performed in accordance with statements on auditing standards.

10 3 b. An examination of prospective financial information
10 4 performed in accordance with statements on standards of
10 5 attestation engagements.

10 6 c. Any engagement performed in accordance with public
10 7 company accounting oversight board standards.

10 8 ~~2.~~ 4. An individual who holds in good standing a valid
10 9 certificate or license to practice as a certified public
10 10 accountant in another state and who desires to establish the
10 11 holder's principal place of business in this state shall
10 12 request the issuance of a certificate from the board prior to
10 13 establishing such principal place of business. The board
10 14 shall issue a certificate to an individual who satisfies one
10 15 or more of the conditions described in subsection 1.

10 16 ~~3.~~ 5. The board shall issue a certificate to a holder of a
10 17 substantially equivalent foreign designation, upon
10 18 satisfaction of all of the following:

10 19 a. The foreign authority which issued the designation
10 20 allows a person who holds a valid certificate issued by this
10 21 state to obtain such foreign authority's comparable
10 22 designation.

10 23 b. The foreign designation satisfies all of the following:
10 24 (1) The designation was issued by a foreign authority that
10 25 regulates the practice of public accountancy and the foreign
10 26 designation has not expired or been revoked or suspended.

10 27 (2) The designation entitles the holder to issue reports
10 28 on financial statements.

10 29 (3) The designation was issued upon the basis of
10 30 education, examination, and experience requirements
10 31 established by the foreign authority or by law.

10 32 c. The applicant satisfies all of the following:

10 33 (1) The designation was issued based on education and
10 34 examination standards substantially equivalent to those in
10 35 effect in this state at the time the foreign designation was
11 1 granted.

11 2 (2) The applicant satisfies an experience requirement,
11 3 substantially equivalent to the requirement set out in section
11 4 542.5, subsection 12, in the jurisdiction which issued the
11 5 foreign designation or has completed four years of
11 6 professional experience in this state; or meets equivalent
11 7 requirements prescribed by the board by rule, within the ten
11 8 years immediately preceding the application.

11 9 (3) The applicant has passed qualifying examinations in
11 10 national standards and the laws, rules, and code of ethical
11 11 conduct in effect in this state.

11 12 (4) The applicant shall list in the application all
11 13 jurisdictions, foreign and domestic, in which the applicant
11 14 has applied for or holds a designation to practice public
11 15 accountancy. A holder of a certificate issued under this
11 16 section shall notify the board in writing, within thirty days
11 17 after its occurrence, of any issuance, denial, revocation, or
11 18 suspension of a designation or commencement of a disciplinary
11 19 or enforcement action by any jurisdiction.

11 20 ~~4.~~ 6. An applicant under this section shall comply with
11 21 all applicable provisions of section 542.5, subsections 1

11 22 through 6, and section 542.6. An individual certificate
11 23 holder of another state and the firm which employs that
11 24 certificate holder shall, by exercising the privileges
11 25 afforded under this section, be deemed to have appointed the
11 26 secretary of state as the certificate holder's agent upon whom
11 27 process may be served in any action or proceeding against the

11 28 certificate holder or the certificate holder's employer
11 29 arising out of a transaction or operation connected with or
11 30 incidental to services performed within this state. In
11 31 addition the certificate holder and the certificate holder's
11 32 employer are further deemed to agree, as a condition of the
11 33 granting of these privileges, to all of the following:
11 34 a. To be subject to the personal and subject matter
11 35 jurisdiction and disciplinary authority of the board.
12 1 b. To comply with this chapter and the board's rules.
12 2 c. To cease offering or rendering professional services in
12 3 this state if the certificate or license from the state of the
12 4 individual's principal place of business is no longer valid.
12 5 d. To the appointment of the state accountancy board which
12 6 issued the certificate as the agent upon whom process may be
12 7 served in any action or proceeding by the board against the
12 8 certificate holder.
12 9 ~~5- 7. The board shall adopt rules to implement administer~~
12 10 ~~this section which will expedite the application process to~~
12 11 ~~the extent reasonably possible.~~

12 12 EXPLANATION

12 13 This bill makes several revisions relating to the
12 14 certification and regulation of public accountants. The major
12 15 revision appears in the bill section amending Code section
12 16 542.19. It provides that an individual who holds, in good
12 17 standing, a valid certificate or license to practice as a
12 18 certified public accountant in another state is automatically
12 19 presumed to have qualifications substantially equivalent to
12 20 Iowa requirements and has all the privileges of Iowa
12 21 certificate holders of this state without the need to obtain
12 22 an Iowa certificate. This privilege extends to individuals
12 23 who provide professional services, whether in person, by mail,
12 24 telephone, or electronic means. Certain services are limited
12 25 to individuals employed by a firm holding an Iowa permit
12 26 issued under Code section 542.7. An individual providing
12 27 services in Iowa under this privilege is subject to the
12 28 jurisdiction of Iowa courts and the Iowa examining accountancy
12 29 board.

12 30 The bill also eliminates a requirement that certified or
12 31 licensed members of the accountancy board must be actively
12 32 engaged in the practice of a certified or licensed public
12 33 accountant for the preceding five years.

12 34 The bill also eliminates provisions requiring continuing
12 35 education for nonlicensee owners of a certified public
13 1 accounting firm and requiring them to comply with applicable
13 2 rules of professional conduct.

13 3 The bill also eliminates certain experience requirements
13 4 relating to attest or compilation services and accountants
13 5 reports on the financial statements. The bill also eliminates
13 6 a current provision allowing an uncertified person or
13 7 unlicensed firm to use the term "accountant".

13 8 LSB 5152SC 82

13 9 jr/rj/8